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TAGS: ETRD ENRG EGEN EFIN UR COMECON

SUBJ: PRELIMINARY APPRAISAL OF SOVIET FOREIGN TRADE PERFORMANCE
IN 1974

REF: MOSCOW 15863

1. SUMMARY: ON BASIS LIMITED DATA AVAILABLE FOR FIRST HALF OF YEAR, PLUS CERTAIN OTHER INFORMATION, EMBASSY BELIEVES THAT 1974 WILL BE RECORD YEAR FOR SOVIET FOREIGN TRADE. TOTAL VALUE WILL PROBABLY TOP 40 BILLION RUBLES (DOLS 52.8 BILLION). AS IN 1973, MOST SPECTACULAR DEVELOPMENT SHOULD BE INCREASE IN TRADE WITH DEVELOPED CAPITALIST COUNTRIES. THIS WILL BE SPARKED BY (1) SERIES OF HUGE CAPITAL EQUIPMENT PURCHASES (SOME IN BILLION DOLLAR RANGE) FROM WESTERN FIRMS, PLUS STEADY FLOW OF LESSER BUT IMPORTANT PRUCHASES, MANY FOR CASH; (2) TREMENDOUS INCREASES IN VALUE OF SOVIET ENERGY EXPORTS TO WESTERN COUNTRIES; (3) MAGNIFYING EFFECT OF WESTERN INFLATION. IN CONTRAST, TRADE PERFORMANCE WITH SOCIALIST COUNTRIES WILL PROBABLY APPEAR AS EMBARRASSINGLY WEAK, AND SPECIFIC WEIGHT OF THIS SECTOR AS PROPORTION OF TOTAL SOVIET FOREIGN TRADE MAY DECLINE ONCE AGAIN. TRADE WITH THIRD WORLD WILL CONTINUE TO BE RELATIVELY SMALL. SOCIALIST COUNTRIES WILL CONTINUE TO TAKE MOST OF SOVIET UNION'S ENERGY EXPORTS BUT THRE WILL BE SOME INCREASE, AND A VERY LUCRATIVE ONE, IN ACTUAL VOLUME OF SOVIET OIL AND NATURAL GAS EXPORTS TO WESTERN EUROPE. END SUMMARY

2. ON BASIS OF LIMITED DATA ON SOVIET FOREIGN TRADE FOR FIRST HALF OF 1974, PUBLISHED IN RECENT ARTICLE IN SOVIET JOURNAL EKONOMICHESKAYA GAZETA (EG), PLUS OTHER INFORMATION WHICH IS NOW BECOMING AVAILABLE, EMBASSY MAKES FOLLOWING APPRAISAL OF PROBABLE MAJOR TRENDS IN SOVIET FOREIGN TRADE THIS YEAR.

3. OVERALL THE YEAR 1974 SHOULD BE A RECORD ONE. TOTAL FOREIGN TRADE THRNOVER SHOULD TOP 40 BILLION RUBLES (DOLS 52.8 BILLION), COMPARED WITH 31.3 BILLION RUBLES IN 1973. AN EARLY INDICATOR OF THIS DRAMATIC UPTURN IS FIRST HAFL-YEAR FIGURE OF 17.8 BILLION RUBLES, AN INCREASE OF TWENTY PERCENT OVER COMPARABLE PERIOD FOR 1973. PAST EXPERIENCE HAS SHOWN THAT SOVIET FOREIGN TRADE GROWTH IS USUALLY MORE LIMITED OFFICIAL USE

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RAPID IN SECOND HALF OF YEAR, THE RESULT OF SHTURMOVSHCHINA EFFORTS TO FULFILL AND OVERFULFILL PLANS. THISYEAR THERE ARE ADDED FACTORS OF GROWING IMPACT OF HUGE PURCHASE CONTRACTS WITH INDUSTRIAL WEST, HIGHER EARNINGS FOR ENERGY EXPORTS IN WESTERN MARKETS, AND THE UPWARD BIAS CAUSED BY WESTERN INFLATION. BUT ALTHOUGH ADJUSTMENTS FOR INFLATED WESTERN PRICES MAY REDUCE TOTAL VALUE OF TRADE IN REAL TERMS, THE INCREASE WILL STILL BE IMPRESSIVE. ONE

SIGNIFICANT STRAW IN WIND HAS BEEN RECENT ANNOUNCEMENT OF EXPECTED 50 TO 60 PERCENT INCREASE THIS YEAR IN SOVIET TRADE WITH FRG--ITS LEADING WESTERN PARTNER--TO AN EXPECTED TURN-OVER OF TWO BILLION RUBLES (DOLS 2.6 BILLION).

4. THE SOCIALIST SECTOR. NO SPECIFIC HALF-YEAR FIGURES ARE PUBLISHED FOR TRADE WITH THE SOCIALIST COUNTRIES WHICH, IN 1973, ACCOUNTED FOR ABOUT 58 PERCENT (CEMA AREA 54 PERCENT) OF ALL SOVIET FOREIGN TRADE. NOR ARE ANY HALF-YEAR FIGURES PUBLISHED FOR TRADE WITH DEVELOPED CAPITALIST SECTOR. IN PLACE OF STATISTICS EG ARTICLE STRESSES IMPORTANCE FOR INTRA-CEMA TRADE OF HUGE MULTI-LATERAL CEMA DEVELOPMENT PROJECTS WHICH HAVE BEEN LAUNCHED IN THE USSR--UST ILIM CELLULOSE PLANT, ASBESTOS MINING AND PROCESSING COMPLEX AT KUEMBAYEV, KURSK IRON AND STEEL COMPLEX. THESE PROJECTS WILL UNDOUBTEDLY GENERATE AN INCREASED VOLUME OF USSR--EAST EUROPEAN TRADE OVER THE PERIOD 1975-80, BUT THEIR IMPACT ON TRADE LEVELS IN 1974 AND 1975 SHOULD BE LIMITED. WE BELIEVE THAT MAIN REASON FOR ABSENCE OF HARD FIGURES MAY BE DESIRE TO AVOID PUBLICIZING A TREND WHICH SOVIETS HAVE FOUND INCREASINGLY EMBARRASSING--CONTINUED WEAK PERFORMANCE AND LOW GROWTH RATE OF THEIR TRADE WITH SOCIALIST COUNTRIES IN COMPARISON WITH DRAMATIC GAINS NOW BEING CHALKED UP IN TRADE WITH FRG, FRANCE, JAPAN, UNITED STATES, OTHER LEADING CAPITALIST COUNTRIES IN DEVELOPED WEST. FURTHERMORE, THE ALMOST COMPLETE ABSENCE OF WESTERN-TYPE INFLATION IN INTRA-CEMA TRADE, AND ESPECIALLY IN SOVIET ENERGY EXPORTS TO EASTERN EUROPE--PRICES FOR WHICH ARE STILL PEGGED AT LOW, PRE-ENERGY-CRISIS LEVELS--MUST FURTHER DEPRESS THE PERFORMANCE OF THE SOCIALIST SECTOR IN COMPARISON WITH FIGURES FOR TRADE WITH WESTERN COUNTRIES.

5. DEVELOPED CAPITALIST COUNTRIES. TRADE WITH THIS AREA LIMITED OFFICIAL USE

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IS DESCRIBED IN EG ARTICLE AS HAVING "EXPANDED SIGNIFICANTLY" DURING FIRST HALF OF 1974, ESPECIALLY THROUGH "NEW FORMS OF ECONOMIC COOPERATION" WHICH INCLUDE LONG-TERM AGREEMENTS. WE BELIEVE WORD "SIGNIFICANTLY" MAY BE SOMETHING OF AN UNDERSTATEMENT. AS NOTED ABOVE, IMPRESSIVE SERIES OF MAJOR CAPITAL EQUIPMENT PURCHASE CONTRACTS WHICH USSR HAS SIGNED WITH LEADING CAPITALIST COUNTRIES OVER THE PAST TWO YEARS, PLUS NUMEROUS MEDIUM SIZE AND SMALLER CONTRACTS, MANY FOR CASH, SHOULD LEAD TO RECORD INCREASES IN TRADE WITH DEVELOPED CAPITALIST SECTOR IN 1974. WHILE THESE PURCHASES WOULD BE IMPORTANT EVEN IN NORMAL TIMES, THEIR IMPACT IS NOW MAGNIFIED BY WESTERN INFLATION. IN ADDITION, THE ENERGY CRISIS HAS TRIPLED THE VALUE OF SOVIET ENERGY EXPORTS TO WESTERN COUNTRIES. HENCE, SPECIFIC WEIGHT OF SOVIET TRADE WITH THIS SECTOR OF WORLD SHOULD INCREASE ONCE AGAIN THIS YEAR

TO DETRIMENT OF OTHER SECTORS. GROWTH RATE FOR SOVIET
TRADE WITH THIS AREA WILL ALSO INCREASE. IN 1973 IT
WAS 40 PERCENT, A FIGURE SO EMBARRASSINGLY
SPECTACULAR THAT SOVIET PRESS CHOSE NOT TO MENTION IT.

6. DEVELOPING COUNTRIES. THIS AREA OF WORLD, WHICH
RECEIVES SO MUCH CONCERN AND ATTENTION IN SOVIET DIPLOMATIC
AND PROPAGANDA ARENA, RECEIVES ONLY BRIEF MENTION IN EG
ARTICLE. LEADING COUNTRIES FOR FIRST HALF OF YEAR WERE
INDIA, ALGERIA, EGYPT, IRAN AND AFGHANISTAN. IT SEEMS
LIKELY THAT AGAIN IN 1974 THEIR IMPORTANCE IN TOTAL SOVIET
FOREIGN TRADE SPECTRUM WILL BE SMALL, PROBABLY BETWEEN 15
AND 20 PERCENT OF TOTAL.

7. EXPORTS OF ENERGY PRODUCTS. ALTHOUGH SPECIFIC EG
COMMENTS ON THIS SECTOR FOR THE FIRST HALF OF THE YEAR ARE
VERY LIMITED, THEY INDICATE A CONTINUATION OF LAST YEAR'S
PATTERN IN WHICH SOCIALIST COUNTRIES TOOK MOST OF
ENERGY USSR HAD AVAILABLE FOR EXPORT. EG ARTICLE STATES
THAT FROM JANUARY THROUGH JUNE SOCIALIST COUNTRIES
RECEIVED "NEARLY TWO-THIRDS" OF ALL SOVIET EXPORTS OF
MINERAL FUELS (COAL, OIL, NATURAL GAS). NEVERTHELESS,
WE BELIEVE THAT ACTUAL VOLUME OF SOVIET EXPORTS OF ENERGY
TO HARD CURRENCY MARKETS IN THE WEST WILL INCREASE THIS
YEAR. SOME OF THE INCREASE WILL BE DUE TO STEPPED UP
EXPORTS OF NATURAL GAS TO WESTERN EUROPE THROUGH NEWLY-
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BUILT PIPELINES, ALSO, WE SUSPECT BUT CAN NOT PROVE
THAT SOVIETS WILL--WHEREVER POSSIBLE--SQUEEZE EE COUNTRIES,
FORCE THEM TO PARE DOWN THEIR IMPORTS OF SOVIET ENERGY
WHICH THEY ARE NOW RECEIVING AT BARGAIN PRICES NEGOTIATED
IN 1971. OVERALL RESULT WILL BE A SUBSTANTIAL FURTHER JUMP
IN SOVIET HARD-CURRENCY RECEIPTS--AMOUNTING TO
SEVERAL BILLION DOLLARS.
STOESSEL

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